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PACIFIC RAILROAD FUNDING BILL.

SPEECH

OF

HON. H. HENRY POWERS

OF VERMONT,

IN THE

HOUSE OF REPRESENTATIVES,

JANUARY 7, 1897.

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SPEECH

OF

HON. H. HENRY POWERS.

PACIFIC RAILROAD FUNDING BILL.

The SPEAKER. The regular order is that the House resolve itself into Committee of the Whole House on the state of the Union for the purpose of considering the Pacific railroad funding bill (H. R. 8189), and the gentleman from New York, Mr. PAYNE, will take the chair.

The House accordingly resolved itself into Committee of the Whole House on the state of the Union, Mr. PAYNE in the chair.

The CHAIRMAN. The House is in Committee of the Whole for the consideration of the bill H. R. 8189. The Clerk will first report the order.

The Clerk read as follows:

Resolved, That on Thursday, January 7, 1897, immediately after reading the Journal, the House shall resolve itself into Committee of the Whole House on the state of the Union for the consideration of H. R. 8189, entitled "A bill to amend an act entitled 'An act to aid in the construction of a railroad and telegraph line from the Missouri River to the Pacific Ocean, and to secure to the Government the use of the same for postal, military, and other purposes,' approved July 1, 1862; also to amend an act approved July 2, 1864, and also an act approved May 7, 1878, both in amendment of said first-mentioned act and other acts amendatory thereof and supplemental thereto, and to provide for the settlement of claims growing out of the issue of bonds to aid in the construction of certain railroads, and to secure the payment of all indebtedness to the United States of certain companies therein mentioned;" that said bill shall be considered under the rules governing general debate during the said day and the day following, until the hour of 5 o'clock p. m., at which time general debate shall close, and then said bill shall be open to amendment and consideration under the five-minute rule until 5 p. m. the following day, at which time the committee shall rise and report the bill and pending amendments to the House. The previous question shall be considered as ordered on the pending amendments and the bill to its final passage, and the final vote thereon shall be taken immediately after the reading of the Journal on Monday, January 11.

The CHAIRMAN. The Clerk will report the bill.

The Clerk read as follows:

A bill to amend an act entitled "An act to aid in the construction of a railroad and telegraph line from the Missouri River to the Pacific Ocean, and to secure to the Government the use of the same for postal, military, and other purposes," approved July 1, 1862; also to amend an act approved July 2, 1864, and also an act approved May 7, 1878, both in amendment of said first-mentioned act, and other acts amendatory thereof and supplemental thereto, and to provide for the settlement of claims growing out of the issue of bonds to aid in the construction of certain railroads, and to secure the payment of all indebtedness to the United States of certain companies therein mentioned.

Mr. POWERS. Mr. Chairman, this bill has been in print now for several months, and I suppose every gentleman of the House has examined it. I therefore ask unanimous consent to forego the reading in extenso of the bill at this time, and in connection with that——

The CHAIRMAN. The gentleman from Vermont asks unani-

mous consent that the reading of the bill be dispensed with. Is there objection?

Mr. RICHARDSON. Mr. Chairman, I want to ask a question before I give consent. I understand the views written by the gentleman from Texas [Mr. BELL] have been exhausted also. I think we ought to have a reprint.

Mr. POWERS. I would suggest to the gentleman from Tennessee that in consequence of the fact that this bill in its terms provides that it should take effect on the 1st of January, 1897, it will be necessary to reprint the bill; and I propose when the committee rises to ask a reprint of the bill, making the necessary changes to conform to the change of dates.

Mr. RICHARDSON. And will you include with that request that there be a reprint of the views written by the gentleman from Texas [Mr. BELL]?

Mr. POWERS. I will, with a great deal of pleasure.

Mr. HEPBURN. Mr. Chairman, there is one matter to which I would like to call the attention of the chairman of the Committee on Pacific Railroads.

The CHAIRMAN. The first question is, whether there is objection to dispensing with the reading of the bill? [After a pause.] The Chair hears no objection.

Mr. BELL of Texas. Mr. Chairman, I desire to ask the gentleman from Vermont a question. I have a substitute which I have prepared and which I desire to offer and have voted upon, and I would ask him if he would not be willing to have an order made to have it printed at the same time? Will you include that in your request?

Mr. POWERS. I will include that in my request when the committee rises this afternoon.

Now, Mr. Chairman, by an understanding had with the members of the Committee on Pacific Railroads, the time for debate is to be equally divided between the friends and the opponents of this bill; and the same understanding contemplates that I shall control the time on behalf of the majority, and that the gentleman from Missouri [Mr. HUBBARD] shall control the time on the part of the minority. I ask unanimous consent that that understanding be confirmed by an order of the committee.

The CHAIRMAN. Unanimous consent is asked that the time for general debate be divided equally between the two sides, the affirmative to be controlled by the gentleman from Vermont and the negative by the gentleman from Missouri [Mr. HUBBARD]. Is there objection? [After a pause.] The Chair hears none, and it is so ordered. The gentleman from Vermont.

Mr. POWERS. Mr. Chairman, in opening the discussion upon this question, which I think the House will soon perceive is the most important question that will come before us for consideration at this session, I shall endeavor to address myself to the candor and sound judgment of the House. If there be any attempt during the progress of this debate to make appeals to the prejudices of men, the opponents of this bill will have a monopoly of that privilege. It is a straight, simple, business proposition that we intend to submit to the consideration of the House. It is a proposition in the consideration of which an appeal is to be made to the judgment of the members of this House as candid men. Very likely I can best serve the purpose that I am charged at this time with forwarding by calling attention for a few moments to

the history of this Pacific railroad legislation, and, before going further, I would say that if any gentleman should desire to submit to me any inquiries he will receive a more elaborate and intelligent answer if he will be kind enough to withhold them until I shall have concluded the main part of my remarks, because interruption will break the continuity of the story, and I think a more useful purpose will be served, and it will be more satisfactory to those who seek information in good faith, if they will make a note of any questions they desire to put and submit them when I shall have concluded my remarks.

In 1862 begins the history of this great enterprise of constructing a railroad from the waters of the Missouri to the waters of the Sacramento in California. Many men, who had been called visionaries by the public, had, before 1862, advanced the theory that it was possible to build such a railroad, but none of those theories took form or shape until the war broke out in 1861, and the Administration then in power discovered that there was a sort of wavering loyalty to the American flag on the Pacific Coast, and, for patriotic reasons, desired the construction of a transcontinental railroad, an object which the people of California and of that section of country had long hoped for and that many men had had fond anticipations would some time be accomplished. The opportunity was a favorable one, but still you are to remember that the country was then in the very throes of the greatest war of modern times.

Notwithstanding all the obstacles that were presented by the condition of things then existing, the promoters of this enterprise, backed by an indulgent consideration on the part of Congress, set their faces toward the completion of this great work, and in a short time thereafter were enabled to see the full fruition of their hopes. In 1862 the promoters of this enterprise came and knocked at the doors of Congress for a charter and for such substantial aid as the magnitude of the work seemed to demand. It was plain to everybody that private capital could not accomplish the desired result and that Government aid must be obtained; and thereupon Congress, listening with a willing ear to this appeal, in view of the considerations to which I have already referred, passed the act of July 1, 1862, by which the Union Pacific Railroad Company was chartered and endowed with all the usual franchises of a railroad corporation, with power to construct a railroad from the Missouri River on the east to the Pacific Ocean on west. At the same time, and as part of the same act, Congress endowed the Central Pacific Railroad Company of California, a corporation created by the legislature of that State, with the same Federal franchises that were conferred upon the Union Pacific Company. That is to say, instead of incorporating a distinct company for the western end of the proposed line, they took an existing corporation, which they had a perfect right to do, and endowed it with the additional Federal functions which would enable it to build this railroad not only through California, but also through the intervening territory between California and the Missouri River.

The act of 1862 provided that the two companies, the Union Pacific Company and the Central Pacific Company of California, should have, as substantial aid for the building of their respective portions of the road, a magnificent land grant of each alternate section of land on either side of the line for a distance of

10 miles—5 sections for every 10 miles. These lands were granted to these two corporations for the purpose of enabling them to construct the railroad which the Government so much desired. In addition to that, Congress gave to these companies a subsidy, as it is termed and will be termed in this discussion. That subsidy consisted of this, that the Government should issue thirty-year 6 per cent bonds and deliver them to the companies as fast as they completed the several sections of the road.

The act of 1862 provided that on the completion of a section of 40 miles of road and upon proof of that fact being made to the Secretary of the Treasury he should issue to the company, per mile, the subsidy bonds in the ratio provided in the act. That ratio was that in the open country between the Missouri and the foothills of the Rocky Mountains the subsidy should be at the rate of $16,000 per mile. I call attention specifically to the fact that this subsidy was granted by the mile, and not as an entire amount. It was a subsidy by the mile upon completed sections of the railroad, and nothing else. The act further provided that in crossing over the Rocky Mountains, and also in crossing over the Sierras on the California end, the subsidy of $16,000 per mile should be tripled, making $48,000 per mile, and that between the Rockies and the Sierras, where the work of construction was more difficult than on the outside ends of the line, the subsidy should be twice the original amount, or $32,000 per mile. That was the magnificent grant, the splendid aid, which the Government of the United States rendered toward the completion of this great national highway.

Now, Mr. Chairman, it is important for us to remember that to-day the building of a transcontinental line of railroad from the Missouri River to the Pacific Ocean is not a difficult work. We look upon it in the light of the past history of railroad building, and we see that four or five of these great transcontinental lines have been built. But when you go back to 1862 you find that this was looked upon as an almost impossible venture. The debates which were had here in Congress demonstrate that not one man in three had at that time the slightest idea that a road across what was then supposed to be the Great American Desert could be built, or that engineering skill was adequate to the task of mastering the summits of the Rocky and the Sierra mountains. But it was done. Looking at it from the standpoint of the men who took this work in hand, it is not strange that in spite of the great patriotic purpose which the Administration had in view at that time—the demand for the construction of this road for the public good—there was still great hesitation at the almost impassable obstacles that presented themselves to the promoters of this enterprise.

But these companies went forward. Under the act of 1862 they endeavored to enlist private capital in the enterprise. But it looked so chimerical—it looked to business men so practically absurd—that very little money was raised, and the scheme seemed to be paralyzed from the start. So those men came back to Congress in 1864 and said to the members of both Houses: "We can not raise the necessary capital to construct these railroads: we are hampered by the fact that the Government itself, under the act of 1862, is to have a bottom mortgage on the railroad; we can not raise money ourselves to build the road. But we ask you to permit these companies to place upon the road a first mortgage underlying the claim of the Government; and with the sale of the

bonds and the proceeds of that mortgage, plus the aid that is to be rendered by the Government, we can assure Congress that the road can be constructed."

In 1864 Congress had the same patriotic ardor for the construction of these roads that it had in 1862. It very readily, therefore, granted this request, and the distinctive characteristic of the legislation of 1864 is the fact that the Government stepped back one pace in the lien which it was to impose on these roads and the securities for the repayment of the subsidy which had been given them, and allowed the companies themselves to place beneath the mortgage of the Government a mortgage of prior obligation upon which they could realize money for the prosecution of this enterprise.

Now, those two acts—the act of 1862 and the act of 1864—contain the charters of the Union and Central Pacific railroads, so far as the provisions of these charters are important for us to consider to-day. The whole legislation is there found, and it is readily accessible to members. It is embraced in the report of the Commissioner of Railroads for 1895, and this is accompanied with the digest of the decisions of the Supreme Court on this subject. In passing, I may say that from the time this legislation was enacted down to this day various questions have arisen between the Government and these companies, and all necessary information on this subject is comprised in a nutshell in the report of the Commissioner of Railroads for 1895.

Now, the Supreme Court has decided that under this legislation the security of the Government rests upon that portion of the railroad line that was actually aided by the Government. As everybody knows, the Union Pacific Railroad is now or was until recently a great system of railroad lines embracing nearly 8,000 miles, whereas the original line as projected under the legislation of 1862 and 1864 embraced only about 1,800 miles. The Central Pacific Railroad of California, as it existed under the original legislation, embraced only the line from Ogden, in the State of Utah, to San Jose, in the State of California, a distance of about 860 miles; but to-day the Central Pacific system embraces a large number of additional lines that have been brought into it by purchase and by new construction.

But before I go any further, I desire to call the attention of the House for a moment to the geography of this situation. When the legislation of 1862 was first proposed, there arose an earnest contention between different towns on the Missouri River for the eastern terminus of the road. In fact, there were as many towns and cities contending for that terminus as contended for the honor of the birthplace of Homer. Sioux City (then a trading post up in the northern part of Iowa), Omaha (or Council Bluffs, on the opposite side of the river), Atchison, Leavenworth, Kansas City, and other towns were thus contending. By reason of this fact the friends of the measure itself were divided into factions, each body of the friends of the road clamoring for the locality in their own particular section. Such things, perhaps, are in accord with the judgment and observation of members here as to what human nature is in this world. The result was that Congress, in order to compose this difficulty and to quiet this contention, provided that the starting point upon the Union Pacific Railroad should be on the one hundredth meridian of longitude. Instead of starting on the Missouri River, they went away out 394 miles into Kansas

and 250 miles or some such distance into Nebraska, to the one hundredth meridian, and provided that the line of road should start at that common point. They also provided that from that point—the one hundredth meridian—branch lines should be constructed to all these contending cities and towns. Thus everybody's desire was met, and the railroad became an accomplished fact.

When, however, they came to construct the road, it soon became apparent that all these branch lines were uncalled for. To make a long story short, and without going into a recital of the various legislation that was had on the subject, I may say that it all came down at last to this: The main line of the Union Pacific Railroad started from Omaha, in the State of Nebraska, and ran west to Ogden, in the State of Utah. Here is the line traced by this black line on the map. [Illustrating.] Another branch of the main line started from Kansas City and ran west to the one hundredth meridian, a distance of 394 miles. Practically, the distance is a few rods less than that, but that statement is near enough. So that the Union Pacific Railroad when constructed consisted of its main line from Omaha to Ogden and the lower line from Kansas City running 394 miles west. And, Mr. Chairman, in that connection, I would say to the committee that this lower line to which I have just called your attention is the old Kansas corporation known as the Leavenworth, Pawnee and Western Railroad. They had a charter from the Territorial legislature of Kansas authorizing them to build a Pacific railroad. Congress, in the act of 1862, provided that that road should be a part of the Union Pacific system; that it should participate in the subsidy and in the land grant as well as any other portion of the main line of road.

The black line on this map, to which I have called your attention, indicates that portion of the Union Pacific system that was subsidized by the Government of the United States—that portion of the road which received Government aid.

Now, I wish to call the attention of the committee to the fact that the Supreme Court of the United States decided that the bond-aided portion of the upper line began at a point about 3½ miles west of the bridge across the Missouri River, that initial point having been fixed by the President of the United States, and that the aid only extends to a point 3½ miles west of this Omaha Bridge. On the lower line, or the Kansas City line, this portion of the railroad entitled to the subsidy and covered by the mortgage begins at a point one-half mile distance from the union station at Kansas City, and, as I have already stated, runs out a distance of some 394 miles. That, in short, is the story of the legislation and the geographical routes of the roads as well as the part of the line that is covered by the subsidy.

In 1864 Congress relieved the Union Pacific Company of any obligations to build the road to Sioux City. Afterwards another company took it and built the road down the east side of the Missouri River to a point about 100 miles distant, and there crossed the river and joined the main line at Fremont, in Nebraska, I think, if I am correct in the name; and that was aided by the Government. So also was the Central Branch of the Union Pacific. The various towns, as I have shown, were contending for the road, and it was provided that what is known as the Central Pacific Branch, midway between the upper and lower branches of the Union Pacific, should be granted aid for a distance of 100 miles, but it terminated at that point. So much for the Union Pacific.

Now, the Central Pacific Railroad started originally as a California corporation. They were authorized by the act of Congress of 1862 and the act of 1864 to continue the construction of their road not only to the western line of Nevada—the limit of the State line—but also to enable them to build eastwardly until they met the Union Pacific, which was being constructed westward. That is the story in brief of the beginning of the construction of these two roads.

It is easy to see, Mr. Chairman, that with this magnificent land grant given to the Union Pacific and the Central Pacific system, as well as the subsidy granted to each, it became a question of rivalry between them as to which should get the largest share. It became a race of diligence between the Central road, building from the west, and the Union Pacific, from the east, to see which could get the most of this grant by the Government, because the land grant and the subsidy were paid to both of them by the mile, and the more miles that any road could get in, the more land and the more subsidy it would be entitled to. The result of it was that these roads built right by each other in the vicinity of Salt Lake for a distance of about 80 miles, which was graded by the Central Pacific east of Ogden, the present terminus of the road; and the Union Pacific had shot by where the work of the Central Pacific was going on; and then each of the roads came to Congress claiming the land grant and subsidy for the additional mileage thus constructed. Congress settled the matter by the act passed in 1869, which provided that the point of junction between the two roads should be at a certain point about 5 miles west of Ogden.

This diligence resulted in another strange fact. Under the legislation of 1864 the roads had up to July 1, 1876, to complete the line, a distance of more than 2,000 miles. They had to cross the Rocky Mountains, the Sierras, as well as to traverse the great intervening arid space between the two. But this race of diligence enabled these companies, under the most formidable obstacles, to build the complete roads to the satisfaction of the Government, and they were accepted by the Government on the 10th day of May, 1869, four years after they had struck the first blow in the work.

Now, why did the Government want these roads built? I will show you. They were paying for the transportation of the mails overland to California, as well as to other points on the Pacific coast, a sum total of between seven and eight million dollars a year. After the roads were built this was cut down from $8,000,000 a year to a little over $1,000,000. They were compelled, before the building of the roads, to incur very heavy expense in the transportation of their supplies for the Indian agencies, their munitions of war, their troops, and other matters of freight. By the building of this road they were enabled to cut down this expense in an equally large ratio.

Not only that. Prior to the building of these roads that great and almost boundless empire that lies between these two ranges of mountains, with millions of public lands for sale, was practically cut out from the world. No man wanted to go there and settle, and therefore no man would buy an acre of that land. But by pushing this line of railroad through it opened these lands to sale and to settlement, and thousands and millions of inhabitants are to-day living in that region that was opened up by the enterprise of these men that had this matter in charge. And I may say right here in passing, that if the Government of the United States should

lose every dollar of its indebtedness against these companies, should make a free gift of it, it could still credit the companies and itself with more than ten times as much in dollars and cents as it has ever expended in the construction of these roads. Why, the building of this Union Pacific through Nebraska and Kansas has strung together towns and cities like beads, and has carried civilization out through that country and across the Rockies, through its open portals to that great plain beyond; and we to-day are enjoying the blessings of it, not least among which is the presence on this floor of the genial gentlemen from Colorado and Utah, and Nevada, and other States out there that we should never probably have heard of had it not been for the building of this road. It opened up the great silver-mining industries of the country. Colorado, Utah, and Nevada were opened up, and the mines of that country were worked. Why, we never should have heard of a free-silver party if it had not been for the opening up of that country. I do not know that that is any argument in support of the passage of this bill. [Laughter.]

Now, in short, this is the way in which the Government got into this fix. The Government away back, under the act of 1862, undertook to secure to itself the payment of these subsidy bonds, and the plan which they then adopted, in the light of the facts then existing, was undoubtedly a safe one to calculate upon. They provided that the issue of these subsidy bonds upon the completion of each 40 miles of railroad—the delivery of these bonds to the companies—should ipso facto create a statutory lien upon that section of road, and to secure payment they provided that this statutory lien should be a first lien, and that the roads, in addition to that security, should pay into the Treasury of the United States a sum of money equal to 5 per cent of its net earnings after the road was constructed. It was supposed that this 5 per cent of the net earnings would be sufficient to meet the current obligations of the Government as they matured.

At that time, as you will remember, this was the only line in contemplation. Nobody dreamed that the Atlantic and Pacific, the Texas Pacific, the Northern Pacific, the Canadian Pacific, or three or four other competing lines that have since been built, would ever be constructed. Everybody supposed that all the freight and all the passengers that were moved between the East and the West were to go over this line and that the business therefore would be immense. But in the progress of time, these promoters having demonstrated that a road could be built over the Rockies, other men interested themselves in competing lines, and in a very short time four or five of these lines have been constructed. Therefore the receipts of these two companies have been lessened by that active competition on the part of other lines.

We are not to say that the Congress of 1862 acted in a short-sighted manner, because as things then appeared to them it was doubtless a sound piece of reasoning to say that the 5 per cent of the net earnings of these companies paid into the sinking fund would pay off this indebtedness in the end.

Now, matters ran along in this way until 1878. Mind you, the road was finished in 1869 and accepted by the Government. The Government, indeed, during the whole progress of construction had its commissioners to inspect the work as it went along, week by week, month by month, and year by year, and if there was any criticism to be made, those commissioners had the right to

point it out to these companies and have any wrong corrected. But the work was accepted.

It was soon seen, after the roads started in and these other competing lines were projected and completed, that the provision made under the legislation of 1862 and 1864 would be insufficient to meet the debt at its maturity.

The Supreme Court of the United States had meantime decided that the interest upon the subsidy bonds was not due from the companies until the maturity of the bonds. The provision in the statute is that the bonds shall be issued running thirty years, the interest thereon payable semiannually, and that these companies should meet and pay that interest. But the court says, and I think it is a unanimous opinion, that under the language used in that enactment the interest upon the subsidy bonds paid by the Government could not be taken from the company until the principal of the debt matured. And the result of that is the interest has been accumulating against these companies, and to-day we are confronted with a vast amount of unpaid interest, as well as the balance of principal.

In 1878 this matter was again taken in hand by Congress, and Judge Thurman, then a Senator from the State of Ohio, prepared and secured the passage of a bill known as the Thurman Act, the essential provisions of which, so far as this question is concerned, are these: That instead of paying into the Treasury 5 per cent of its net earnings, which upon an actual experience had proved to be insufficient, the Thurman Act provides that there shall be 25 per cent of the net earnings paid in. I ought to have said, in passing, what the two acts of 1862 and 1864 provides. The act of 1862 provided that the whole amount of the indebtedness from the Government to the railroads for the transportation of mails, for the transportation of its troops, and for other purposes, should be retained by the Government.

In 1864 Congress modified that by providing that of these transportation charges only one-half should be retained in the Treasury and the other half paid to the company. You observe that the Government thus was one of the very best customers of these roads. It had to pay these roads an enormous sum, and they took care to provide in the act itself that they should not be charged any higher rate than that charged private individuals for similar service. These transportation charges, which were enormous in amount, were to be retained, under the act of 1862, altogether in the Treasury; under the act of 1864 one-half only, and under the act of 1878, the Thurman Act, the whole was to be retained, but one-half of it should be applied to the current interest on the subsidy bonds, and the other half go to the sinking fund, the theory of the Thurman Act being that one-half of its transportation charge, plus some other reserve, would take care of the current interest on these bonds, and the sinking fund itself would at the maturity of the bonds be large enough, if well invested, to take care of the principle.

Now, I will restate these propositions, because it is a pretty important piece of arithmetic. Under the act of 1862 the security retained by the Government was a first mortgage on the road, plus 5 per cent of the net earnings and the whole transportation charges; under the act of 1864 the security of the Government was a second mortgage on the road, plus 5 per cent of the net earnings and one-half the transportation charges; under the Thurman Act

of 1878 the security of the Government was 25 per cent of the net earnings, made up in this way: First, the transportation charges that the Government would be owing to the road as a debtor; second, 5 per cent of the net earnings; third, such a proportion of the aggregate sum of $1,200,000 in the case of the Central Pacific, and $800,000 in the case of the Union Pacific, should be paid into the Treasury of the United States, which with the other two reservations, transportation charges, and 5 per cent, would aggregate in the whole 25 per cent of their net earnings.

Now, if I have not made myself understood on that proposition, I desire that some gentleman advise me of the fact, because it is an important consideration.

Now, then, Judge Thurman, in one of the most elaborate discussions of this question that has ever been made in its entire history, practically demonstrated, as the reader will see, the facts that his provision amply secured the repayment of this money. Why did it fail? Why, it failed, Mr. Chairman, just as many times the best laid plans of men as well as mice fail. The reduction in the rates of transportation was a very important contributing factor to bring about this result. The freight rates from the east to the west have been going down, down, down, as time advanced, to such a point that they hardly pay the charge made necessary by that transportation. This, however, is not peculiar to the history of these roads. It is peculiar to the history of all railroads in this country. How many of these roads have gone into the hands of receivers from the same cause exactly? Not only that, but the Government itself has divided this patronage with the Pacific roads. Instead of sending all its freight, all its transportation business over this line, the child of its own creation, the child that it should nourish and encourage, especially if it expected a repayment of its debt, it has divided its patronage. Some of it has gone to the Central Pacific, much of it to the Santa Fe, and much of it has gone to the other roads, thereby reducing the receipts in the treasury of the company, and to a corresponding degree the receipts in the Treasury of the United States have necessarily been cut down.

But that is no fault of the railroads. It was a wise policy that promoted the building of these other lines. Other sections of this country needed opening and development as well as that central portion, and therefore the Government was wise in encouraging it, and no man has a right to criticise that policy; but the necessary result of it was to diminish the earning capacity of these roads which the Government itself had assisted in building, and therefore that policy contributed very largely to bringing the road into its present insolvent condition.

The Thurman Act was based upon the theory that Government money was worth 5 per cent interest, and if that theory had proved correct, no doubt the Thurman Act would have worked out the result anticipated by its author. But instead of the Government borrowing money at 5 per cent interest, it can borrow at a rate nearer to 2 per cent, and this appreciation in the credit of our Government, which ought to thrill with pleasure the heart of every patriotic American, has also contributed very largely to the disastrous result which has overtaken these roads.

Mr. BOATNER. Does the gentleman from Vermont advocate the passage of this bill on the ground that the management of the companies has been such that they have paid to the Government

all that judicious and proper management would have enabled them to pay?

Mr. POWERS. I do; and I might as well come right to that point now as at any other time. My friend from Louisiana [Mr. BOATNER] was a member of the Committee on Pacific Railroads two years ago, and I know what his views are. His views are that the promoters of these railroads are a set of rascals, that they have got rich, and that they ought to disgorge and pay off this debt themselves. Now, if they have got rich out of the United States of America, I say amen to his proposition. But if, on the other hand, they have discharged every obligation they were under to the Government and have got rich from other sources, I say it is none of our business. I say that men who will build a railroad through snow banks 35 feet deep, and who will shed over miles of a railroad so that they can go on through the storms of winter and complete their road and operate it, men who undertook an enterprise that nobody had any faith in when they started upon it, ought to get rich if they succeed in accomplishing what people generally supposed to be an impossible task. I do not mean that they ought to get rich out of the Government, but if in the exercise of their wits they get rich I say that is their business.

Mr. BOATNER. The gentleman from Vermont——

Mr. POWERS. I decline to yield further, Mr. Chairman. I would yield to the gentleman, but I know he is going to have time in this debate, so that he will have full opportunity to advocate his side of the question.

Let me suppose a practical case by way of illustration. The Government has been engaged for several years past in building in this city the most magnificent Library building on the face of the earth. I think it was Mr. Batterson, of Connecticut, who took the contract for that work. My friend from Connecticut [Mr. HILL] nods his assent. Mr. James G. Batterson, of Connecticut, took the contract to construct that Library for $6,000,000, a large sum of money. The Government made its plans and specifications and said to Mr. Batterson: "If you will go ahead and construct that building we will pay you six millions."

Now, suppose that Mr. Batterson made a net profit of $2,000,000 upon the work, is that any reason why he should be called upon to "disgorge" those two millions? Is it any reason why we should mark him down as a "rascal" because he has succeeded by his wit, by his enterprise, by his intelligence, in making a handsome profit on the job? Certainly not. The Government said to these Pacific road companies: "Gentlemen, we want a line of railroad constructed from the Missouri River to the Pacific Coast; we want to open up our great possessions between the two great ranges of mountains; we want to lessen the cost of transporting supplies and munitions of war across the continent, and supplies for the Indians to the interior of our country; we want a cheaper mode of transportation. If you will take all the risk and peril of building the road and will construct it to our satisfaction, we will give you so much money, we will give you such and such a land grant, and we will lend you each $33,000,000 by way of subsidy, which you may repay according to the terms of contract. If these conditions are acceptable to you, go on and build the road."

Now, if those companies went on and built the road, what man is there outside of a lunatic asylum who will say that they have got rich out of the Government? They have gotten out of the

Government just exactly what the Government contracted to give them; no more. Not only that, but under the provisions of the acts of 1862 and 1864, as well as the Thurman Act of 1878, they have paid into the Treasury of the United States, notwithstanding the fact that the Union Pacific Company during the last three years has been in the hands of a receiver, every dollar that the Government required of them. Not a cent has been defaulted. Where, then, is the ground for saying, as my friend from Louisiana [Mr. BOATNER] will say when he comes to discuss this question, that the men who built this railroad ought to "disgorge" and pay this debt themselves? They are nothing but stockholders in a railroad company. If any of you gentlemen are stockholders in an insolvent bank, do you pull out your own pocketbooks and pay its debt, or do you insist that the bank itself must pay?

Mr. BOATNER. Mr. Chairman——

Mr. POWERS. I decline to be interrupted, Mr. Chairman.

Mr. BOATNER. Well, if the gentleman declines to be interrupted, I beg him not to undertake to state what I am going to say. [Laughter.]

Mr. POWERS. Well, Mr. Chairman, I know what the gentleman is going to say. [Laughter.] We might just as well understand it now as at any other time. Now, I repeat, these railroad companies have discharged every obligation which they were under to the Government, and you are to note, gentlemen, that the obligations imposed upon these roads were imposed by you. Your predecessors, who occupied these seats, imposed the obligations. They fixed the requirements to which the companies should be held. They provided that the companies should pay so much into the Treasury every year, and if it was not enough you might just as well scold about your predecessors here as to scold about the companies, and you might do it more reasonably, because the company had no voice in fixing the obligation. The Congress of the United States, the supreme power, fixed that requirement at its own will, and usually the companies had no voice in the matter. If they fixed it at too low a sum, we must simply scold about the faulty judgment of our predecessors. We all know that there never was a Congress assembled on this continent that was so wise, so pure, and so handsome as the present Congress. [Laughter.]

They fulfilled all those obligations. What has been the result? Why, gentlemen, the result of those requirements exacted of those companies has been this, that the Union Pacific Railroad Company has actually paid into the Treasury $5,000,000 more than the total amount of the subsidy bonds originally granted to them. I reiterate that statement: The Union Pacific has returned to the Treasury of the United States the total principal of the subsidy bonds issued to it plus $5,000,000, and the Central Pacific has returned into the Treasury under those various requirements a sum that lacks only about $10,000,000 of the amount originally granted to that road.

Mr. MCCREARY of Kentucky. Will the gentleman state the whole amount paid in?

Mr. POWERS. I will give those figures in a few moments. I will state, however, that they appear in the report of the majority of the committee.

So that these railroad companies have actually returned to the United States Treasury all the money that was originally granted to them, less about $5,000,000. That leaves, therefore, this differ-

ence of $5,000,000, plus the accrued interest; and that is the most important item of the whole; that is the subject-matter of this proposed legislation.

Now, without taking more time on this branch of the subject, I will go at once to the provisions of the bill which the majority of this committee have proposed for your consideration.

Mr. CORLISS. If the gentleman will allow a question, I would like him to state, before he proceeds further, what the indebtedness of these roads to the Government was at the time the roads were practically completed.

Mr. POWERS. The gentleman will find those figures in the majority report; but I may as well call attention to them now. I should say that the report to which I now refer was made up at the last session of Congress, and therefore it is six months short in the computations of interest that should be allowed. I make this explanation so that gentlemen may not be misled. I have, however, in my desk a statement, which I may as well now refer to, of the exact amount of this indebtedness as it will be on the 1st day of July next. As I have already said, the bill under consideration was prepared last winter. Its terms contemplate that it shall go into effect on the 1st day of January, 1897. That time having passed, it is necessary to revise the bill, substituting July for January at the appropriate places in the bill.

On the 18th of last December, after it was understood that this bill was to be brought up at this time for consideration, I wrote to the Treasury Department, asking for a computation of the amount of the debt of both these roads as well as the amount of the sinking fund applicable to them. I have here a letter of Mr. Curtis, the Assistant Secretary, transmitting this statement. The actual amount due, I will say to the gentleman from Michigan [Mr. CORLISS], on the 1st day of next July from the Central Pacific will be $57,904,177.36, as appears from the report of the Government actuary, which I hold in my hand. On the same date the actual amount due from the Union Pacific Railroad will be $53,289,593.45; that is the net balance.

Mr. SPALDING. That includes the accrued interest?

Mr. POWERS. It includes everything; it is the grand total of the whole debt.

Mr. CORLISS. Neither the statement which the gentleman has made nor the report to which he has referred us gives distinctly the information for which I asked.

Mr. POWERS. Did the gentleman want the original amount of the indebtedness?

Mr. CORLISS. Yes, sir; the indebtedness when the roads were completed.

Mr. POWERS. The gentleman will excuse me; I thought he wanted the present amount.

When the first subsidies were granted, the Union Pacific and the Kansas Pacific (that is this upper line displayed on the map and this lower line extending 394 miles, which is all one road received from the Government $33,539,512; and the Central Pacific Railroad of California and also the Western Pacific, which is now a part of the Central Pacific, received $27,855,680.

Mr. FAIRCHILD. Is the difference between the amount of the original indebtedness and the figures at the present time made up solely by the interest that has not been paid?

Mr. POWERS. By that and by the application of the sinking

fund. Now, then, this Congress is confronted with this condition: These subsidy bonds have some of them already matured, and the balance of them mature on the 1st day of January, 1898, and the 1st day of January, 1899. The time for action has come. The Government must do something to close out its relations with these roads. The President of the United States under the act of 1887 already has authority to foreclose the lien of the Government, and if necessary, pay off the underlying first mortgage. The first question, therefore, that presents itself to us is this: Is it wise business policy for the Government to foreclose its lien or to seize the property, as some gentlemen contend it may be seized under the act of 1862, and get out of it what it can by the foreclosure?

Supposing that these gentlemen are right—that the Government can seize this property; the act of 1862 provides that upon a default in the payment of this interest as it matures the Government shall be authorized to take possession of the property; but every lawyer knows that that does not mean at all that the Secretary of the Treasury can walk into the office of this company and demand possession of the road and its property, and by force of arms or otherwise actually take possession. It means that he can take possession only by judicial process. He must resort to some judicial process if his request is not granted peaceably. That implies litigation. That raises all the questions that the company might raise as to the right of the Government to do that. It does more: It would require that the Government pay off its underlying first mortgage in order to realize any benefit from the seizure. Suppose that the Government, instead of taking that course, should foreclose the mortgage by proceedings in the courts. Now, under the practice of the Federal courts where this case would go, the Government does not have what is known in New England as a strict foreclosure; that is, when the mortgage upon the foreclosure takes the property itself.

Under the Federal Legislature the procedure must be to expose the property to public sale. The Government, therefore, if it forecloses the mortgage, must put the road and its property up at auction subject to the lien of the first mortgage, or it must pay off the lien and sell the fee of the property. Is that wise? Now, let us consider that matter for a moment. What would it amount to? It will cost the Government, to pay off the underlying mortgages upon the road, between sixty and seventy millions of dollars. Does the condition of the Treasury at this time, and the condition of the business of the country, warrant us in imposing on the Treasury a burden of sixty or seventy millions of dollars for the purpose of trying an experiment—for the purpose of trying the experiment of foreclosing the mortgage, and trying to get something for the property or the land that is left behind? Is it a wise proceeding? Would we do that in our dealings with individuals?

Why, gentlemen, it seems to me that the absurdity of the proposition needs no illustration. Take a common case familiar in your own business experience and illustrated in everyday life. If you have a man who owes you a debt—and every man who hears me has undoubtedly some time in his business life had an insolvent debtor to deal with—if he had an insolvent debtor, and he held a second mortgage on the farm, a farm encumbered by an underlying mortgage big enough to sweep it all away, would he send for the debtor and say to him what you propose to say to these railroads? How would he conduct the business? Would he do it

by pounding his debtor, swearing at him, calling him a thief, abusing him for the faults committed in the past; or would he deal with him on a business footing and proceed to get the very best settlement available? Would he say to him, "My dear sir, you are a gambler, or a thief; you are dabbling in politics, or worse, you have been dabbling with Polly, and to punish you for your sins I decline to deal with you on a sound business basis or on ordinary business principles. I will sacrifice your property as a punishment for your past sins, although probably by the same operation I lose the amount of my debt." Would any sensible man act in that way? That would be the act of a child. It would be simple.

The CHAIRMAN (Mr. HULL in the chair). The time of the gentleman from Vermont has expired.

Mr. POWERS. I believe, Mr. Chairman, that I have, by the consent of the House, entire control of the time.

The CHAIRMAN. That is correct; but under the rules of the House, even where unlimited time is within the control of a member, he is not allowed, except by unanimous consent, to occupy the floor for more than one hour.

Mr. POWERS. I ask unanimous consent to proceed. I shall not detain the committee very much longer.

Mr. WATSON of Ohio. I move that the gentleman be permitted to conclude his remarks.

The CHAIRMAN. Without objection, the gentleman from Vermont will proceed.

There was no objection.

Mr. CURTIS of Kansas. I would like to ask the gentleman from Vermont a question in connection with the matter he has just been discussing.

Mr. POWERS. Very well.

Mr. CURTIS of Kansas. If this property is now unable to pay the debt, why have you increased by your bill the first lien on the Union Pacific road for $21,000,000 and the first lien on the Central Pacific over $24,000,000?

Mr. POWERS. Because we get two dollars for one of additional security. But I will meet that point further on, if the gentleman will permit me to proceed.

Mr. CURTIS of Kansas. I make the suggestion for this reason, that the Union Pacific, according to the appraised value of the increased securities, is only worth $36,000,000 to-day, and the land is put in at $16,000,000. No one acquainted with the facts will dispute the assertion that that land is not worth $16,000,000 now.

Mr. POWERS. I will come to that later on.

Now, Mr. Chairman, as I was saying, as individuals dealing with an insolvent debtor we would be very likely to say "My dear sir, what I want to find out is your debt-paying capacity; the ability of your farm to meet the obligations. I want to know the average income of your farm under ordinary conditions?" When we have ascertained that fact we will adjust the burden to his shoulders in such way as he can bear it. Now, if by reducing our rate of interest and extending the debt for four or five years, it will enable him to work out from under the load and permit him to pay in full, why, manifestly every man here would adopt that plan. We have adopted the same plan in all of our dealings heretofore. We say that a foreclosure would be unavailing; that the

receipts of the property would be unavailing from the fact that the thing you seize or foreclose is nothing in the world but an interior or underlying property.

But suppose, for instance, the Secretary of the Treasury should go to Denver and take possession of the Union Pacific line, under the act of 1862, and begin to operate it. What would be the effect? Why, he would start his trains from Denver and get within 3 miles of the bridge across the Missouri River, and be stopped there. There would be a fence built across his line and he could not get a mile farther without the consent of the parties who control the remainder of the line.

Mr. OGDEN. But could expropriate not facilitate get into the terminal point?

Mr. POWERS. You mean that it could be condemned under the right of eminent domain?

Mr. OGDEN. Yes.

Mr. POWERS. I should say, no. If one road has the property condemned under that right already, there is no authority, as far as I know, that would allow another road to come in and condemn again and take away the possession.

Mr. OGDEN. Not if they are not using it.

Mr. POWERS. But they can use it. The city of Omaha is a great city, and the roads from the East want to get in there. There is not any trouble but what the bridge will be used, and these terminals down in Kansas City will be used. If he wanted to start out his train for Denver over that line he would have to jump over a half mile of track belonging to some one else before he could get onto his own road.

Mr. MAGUIRE. Will the gentleman permit a question?

Mr. POWERS. Yes.

Mr. MAGUIRE. Is not Omaha as great a city from the West as an eastern terminal as it would be from the East for the other roads?

Mr. POWERS. Well, I hope so. I do not know what the facts are.

Mr. MAGUIRE. Well, I should hope so.

Mr. POWERS. It is a pretty big city from the East.

Mr. SWANSON. I should like to ask the gentleman a question for information, because I could not find it in the report. I see you have, as the gentleman from Kansas [Mr. CURTIS] has said, an additional amount of $21,000,000——

Mr. POWERS. I will explain that.

Mr. SWANSON. What I want to know is how that item is made up?

Mr. POWERS. I should prefer not to be diverted from my line of thought, because I am coming right to that point.

Mr. BARHAM. Will it interrupt the gentleman——

Mr. POWERS. I can not be interrupted by the gentleman from California [Mr. BARHAM]. He is going to talk, and he must talk in his own time.

Mr. BARHAM. I wanted to ask about the Omaha Bridge.

Mr. POWERS. I will give you all the information I have about it presently.

Now, as I have already said, if we are going to seize the property, or if we are going to foreclose the mortgages, it is important for us to consider what we are going to get under that proceeding. And, as you say, instead of getting a road with terminals,

and with these branch lines, a network of which, as you will observe, runs all along in connection with these roads; instead of getting a system that can be worked as a railroad, we get an empty trunk, without terminals anywhere, and we have got to take our chances in dealing with somebody else.

Now, it may be said that these owners of these terminals, perhaps, and the owners of these branch lines are in just as bad a predicament as we are, that they want the trunk lines as much as we want their help. That is true, but how does that help the argument at all? It makes no difference what they want. The question is, What shall we have as a matter of legal right? And we have got to depend upon the graciousness of these parties or upon some inducement that we can hold out to them in order to have a completed railroad. That is what we are going to get.

Not only that. This road would have to be put up at public sale under foreclosure proceedings. Who on earth would be likely to bid it off? Would you or I or any outside party take the risk of stepping in and bidding on that property that was nothing but an interior property, without terminals or anything else? Certainly not. We should not dare to. The ownership of these branch lines, the very ownership of these terminals, the very ownership of everything essential to make that railroad worth a copper is in the hands of other parties and probably hostile parties. Now, where will you find the man with capital, the man who has millions of money to invest, who will step into a hornets' nest of that kind and make a bid? What is the practical result? These very men whom you are now scolding about, the very men who own the terminals and own these connecting lines are the only ones who can safely bid on the property, and probably they will be the only bidders. They would get the property at their own figures.

Every man can see what that would necessarily lead to. So that the procedure of a foreclosure compels the Government to raise sixty or seventy millions more of money to put into this hopper, and also leaves the Government with an insecure property after they have got their decree.

Mr. NORTHWAY. Will the gentleman permit me?

Mr. POWERS. Certainly.

Mr. NORTHWAY. If we accept the bill of the committee, do we get security upon all of these terminals and branch lines clear through?

Mr. POWERS. We do. I am coming right to that.

Now, it struck the committee, and it has struck every committee that has ever considered this subject since the Pacific railroads have been built, it has struck all the railroad commissioners, everybody who has investigated the matter, and they have all reported with one voice, that the true way to solve this problem was to fund this debt by an extension at a lower rate of interest, get a security upon a line which, if we are obliged to take it, will be a railroad line and not a section of a railroad line.

This committee have therefore proposed this bill, the essential features of which are these: That the amount of the Government indebtedness shall be ascertained as of July 1 next. The present bill before you reads January 1; but, as I said before, this will have to be corrected, and I will ask for an amendment. On the 1st of July this indebtedness is to be ascertained by getting at the present worth of the subsidy bonds that have not yet matured,

bringing them down to the 1st day of July, 1897, so that on that day we will know just exactly what is the debt from the railroad company to the Government; and that thereupon the companies themselves shall issue first-mortgage bonds, taking up the existing mortgage, not only on the aided portions of the lines, but on their entire system, issuing a first mortgage equal in amount to the principal of their existing first mortgage; and that the Government shall take a second mortgage, lapping over the same property, lapping over the terminals, the Omaha Bridge, worth $2,000,000, and lapping over the Denver and Pacific road that runs from Denver to Cheyenne, and lapping over the branches forming the Union Pacific. In other words, a blanket mortgage, resting upon all this property, from branch to branch, to the same extent as the first mortgage that we allow to be put on.

Now, will we gain anything by that? My friend from Kansas called my attention to this fact. I say we do. We get a mortgage on a system of roads. We get a mortgage on a railroad instead of a mortgage on a portion of a line. It covers the whole thing, the terminals at Council Bluffs, the Omaha Bridge, the Omaha terminals, and on the line clear through. Essentially it covers also this line from Kansas City out to the three hundred and ninety-fourth milepost, where it now ends, to Denver, together with all the branches and feeders that supply this line. So that if the worst comes to the worst in the end and the Government is obliged to foreclose its indebtedness, it can then take a property that can be operated as a railroad. There is one advantage.

Mr. FAIRCHILD. Mr. Chairman, will the gentleman allow me to ask him a question?

Mr. POWERS. Certainly.

Mr. FAIRCHILD. What would be the western terminus of that road that would be covered in the new mortgage to the Government?

Mr. POWERS. Ogden.

Mr. FAIRCHILD. How about the road still west of Ogden?

Mr. POWERS. That is the Central Pacific.

Mr. FAIRCHILD. That is operated by the Southern Pacific?

Mr. POWERS. That is now operated by the Southern Pacific.

Mr. FAIRCHILD. And this proposition would not include any of the property of the Southern Pacific?

Mr. POWERS. Certainly not. We can only deal with these two corporations as the Government has always dealt with them. The debt of the Government has not run against them jointly, but severally.

Mr. FAIRCHILD. One more question. Can the gentleman state how many alterations have been made as to the security given by these roads since the original subsidy was granted to them?

Mr. POWERS. Three.

Mr. FAIRCHILD. What better position would we be in fifty years from now, in view of the fact that we have no road farther west than Ogden, if they again should come in and ask for a fifth alteration?

Mr. POWERS. The original act provides that these two lines shall be operated as one continuous line, and they always have been.

Mr. NORTHWAY. But not a continuous mortgage.

Mr. FAIRCHILD. But not a continuous mortgage.

Mr. POWERS. Congress could not make a continuous mortgage over the two corporations. The Union Pacific is our several

debtor, and the Central Pacific is our several debtor. They are not our joint debtor; therefore we can not impose a joint mortgage upon the two.

Mr. FAIRCHILD. But they are operated by the same men?

Mr. POWERS. Not at all; they are operated by distinct corporations.

Mr. FAIRCHILD. By distinct railroad corporations, but by the same interest.

Mr. POWERS. No, not in the same interest. The Union Pacific is separate in its interests from the Central Pacific, and the Central Pacific is separate in its interests from the Union Pacific.

Mr. FAIRCHILD. Are not the men of the same interest making the same proposition as to both railroads?

Mr. POWERS. Both railroads will take this bill, but they do not have a joint interest in this property, and this bill is not framed that way.

Mr. FAIRCHILD. My question is as to the individuals in interest in both companies, not as to the corporate identity. I understand that these companies are both here asking for this legislation and that the same people who are interested in them are also interested in the Southern Pacific.

Mr. POWERS. You say they are here asking for this legislation. I can not say that.

Mr. FAIRCHILD. Will the gentleman deny it?

Mr. POWERS. Yes; I will deny it.

Mr. HILBORN. Then who is asking for this bill?

Mr. POWERS. The Pacific Railroad Committee of the House of Representatives, representing the Government of the United States, are asking for it. This bill is objectionable to both companies.

Mr. MAGUIRE. Then they can simply refuse to accept it.

Mr. POWERS. They can refuse, and it is not certain but that they will do so. This legislation is objectionable to them, and we have had to force upon them an unwilling dose.

Mr. MAGUIRE. Let me ask the gentleman——

Mr. POWERS. Mr. Chairman, I can not be interrupted by a gentleman who is doubtless going to talk upon this subject three times as much as I shall.

Now, the bill proposes that this indebtedness shall be extended with interest at the rate of 2 per cent.

Mr. SWANSON. I wish to ask the gentleman a question for information, to see if I understand this matter. I understand that from the three hundred and ninety-fourth milepost on the Kansas Pacific up to Denver the Government has at present a first-mortgage lien?

Mr. POWERS. No, sir.

Mr. SWANSON. I do not mean the subsidized portion——

Mr. POWERS. No; the Government has no lien on that road from the three hundred and ninety-fourth milepost to Denver. The Denver and Pacific Railroad Company has an outstanding first mortgage, and we propose to allow the Union Pacific Company, under a reorganization, to place a first mortgage on its own property that shall be equal to the face value of the existing mortgages on the same property.

Mr. SWANSON. Now, from the three hundred and ninety-fourth milepost to Denver and to Cheyenne, Wyo., the first-mortgage bonds are included in the $21,000,000, are they not?

Mr. POWERS. Certainly.

Mr. SWANSON. What is the earning capacity of that road to pay off the existing mortgage bonds?

Mr. POWERS. I will come to that in a moment, if the gentleman will be a little patient. As I was saying, Mr. Chairman, the provisions of this bill are simply these, that this debt shall be extended at 2 per cent interest. That looks like a small rate of interest, and the committee did their best to make it 3 per cent, but they studied and took into consideration the debt-paying capacity of the debtor, and they found that if they levied 3 per cent interest they would simply leave the debtor worse off than he was before. He would not be able to meet the obligations of the first year, and the whole arrangement would fall to the ground.

Mr. SMITH of Michigan. Let me ask the gentleman upon what the committee's estimate was based?

Mr. POWERS. Upon the net earnings for a series of years, down to the present time.

Mr. SMITH of Michigan. Another question for information. You stated a while ago that the Government had diverted its traffic and had sent it over competing lines. I would like to know whether there has been any other diversion of traffic by the people owning the Union Pacific.

Mr. POWERS. Do you mean the Union or the Central Pacific?

Mr. SMITH of Michigan. The Union and the Central both. Has there been any other diversion of traffic to competing lines which are within the influence of the owners of the Central and the Union Pacific?

Mr. POWERS. You will be told by my friends from California as this debate progresses that the Southern Pacific road has absorbed the earnings of the Central Pacific. That is not true. I shall not stop at this time to demonstrate that it is not true, but I can do it. I propose to wait, however, until they make the statement, and then I will undertake to show the House that there is not a particle of truth in it. As to the Union Pacific, I know of no diversion of its earnings to any other road whatever. I never heard any intimation made that it had diverted its earnings.

Mr. SMITH of Michigan. Is the gentleman from Vermont prepared to say that the Union Pacific has had its proportion of the business; that there has been no diversion of traffic from it? I understand that there are competing lines, and it has been stated that the traffic has been diverted to those lines.

Mr. POWERS. It is quite true that there are competing lines running from Chicago to Denver. I think there are three of them; certainly two.

Mr. SMITH of Michigan. Are they not controlled by the same people who control the Pacific roads?

Mr. POWERS. No, sir: they are not controlled by the same people, and one of those roads, as we are informed, is here now, trying, in its own interest, to defeat this bill. There are competing roads, but no man has asserted, and I do not think any man will assert, that either the Burlington or the Missouri Pacific or the Rock Island is part and parcel of the Union Pacific.

Mr. SMITH of Michigan. I am not hostile to the gentleman's plan. I am asking for information.

Mr. POWERS. Well, these other roads are hostile to the Union Pacific. That is the fact.

Now, then, as to the Union Pacific and the Central Pacific, it may be generally said that, in order to get at what the companies

have paid on this indebtedness, the committee made a careful study of their net earnings in the situation in which they are placed and with the circumstances surrounding them, for several years back, including not only years of prosperity, but years of adversity. All railroads, like all other business enterprises, are the beneficiaries of good times and the victims of bad times. In order, therefore, to get at a fair average we have studied that question very deeply; and we have come to the conclusion that $4,000,000 in each case will cover the last dollar that can be safely counted upon as certain net earnings of this company. We have started on that basis; and starting upon that basis we have prepared this bill, which figures out like this——

Mr. LACEY. I would like to ask the gentleman a question in connection with the dividends. Why does the bill provide for dividends at 4 per cent on the stock, when the Government can get only 2 per cent on the bonds that are held for the stock?

Mr. POWERS. Well, my dear sir, if you expect a railroad company to undertake to pay a debt, do you imagine you can ignore the stockholders? Can you say to the stockholders of a railroad corporation under these circumstances, "Gentlemen, you never shall hope to get a dollar out of this property; but we are going to compel you to pay this debt?"

Mr. LACEY. The point of my question was why the dividends should be larger than the interest on the bonds?

Mr. POWERS. We propose to allow a 4 per cent dividend in order to bring the stockholders into this arrangement. We want them to undertake this burden, and we can not get them to do so unless they can see a chance some time of getting something out of the property for themselves; and 4 per cent is a small dividend with which to tempt them into this arrangement.

Mr. MOODY. Will the gentleman tell us what is the present market value of the stock upon which it is now proposed to pay a 4 per cent dividend?

Mr. POWERS. The market value of the Central Pacific stock, so far as I have known anything about it during the last six months, is about 17. The market value of the Union Pacific is nil. You will see the Union Pacific stock quoted in the papers as selling at $9 and $10; but the explanation of that is this: The Union Pacific reorganization committee has corralled 95 per cent of this stock—has gathered in the certificates under an agreement with the holders that they will stand an assessment of $15 a share, and has issued to each stockholder a certificate that the stock is so held. Those certificates, coupled with that obligation, are put on the market and sold to-day for nine or ten dollars. The last market quotation which I saw was about $10; and those same certificates obliged the holder to stand an assessment of $15 a share.

Mr. HILBORN. Will the gentleman allow me to ask what dividend the Central Pacific is now paying on its stock?

Mr. POWERS. My friend from California [Mr. HILBORN] is going to make a very eloquent and plausible speech before this debate closes, and I suggest that he ask that question of himself and answer it.

I should go back, perhaps, a step in this debate and say that in addition to this mortgage which it is proposed to place upon the whole property of the system, it is provided in the bill that the companies shall secure the payment of the annual requirements made of them by giving the Government the right to withhold

the money that will be due from the Government to the company for transportation services until these current annual requirements are met.

As I have already said, the Government is a patron of these roads. It hires them to transport its mails and to do all the freighting that it has occasion to do in that part of the country. Their patronage has amounted in the past to a large sum of money. In the case of the Central Pacific it has reached annually as much as $600,000; in the case of the Union Pacific, a much larger sum, I think about double that amount—about $1,200,000 a year. So that by giving the Government the right to retain their money in its Treasury until the companies have met and discharged their annual obligations, the entire interest charge, at least, due from the companies will be met by that money alone, leaving nothing to be provided for on the part of the companies except the annual cash payment, which, as I shall presently show, is a requirement that both of the companies must come under. We provide that they shall pay this rate of interest semiannually; we secure the payment of it and the payment of all the obligations we assume by this first mortgage, plus the right on the part of the Government to retain in its own hands money enough to meet the annual interest charge.

Now, in addition to that interest we require them to pay an annual installment upon the principal of the debt, amounting in the case of each road to $365,000, so that each road, as will be seen, will pay into the Treasury, if it complies with these requirements, $1,000 a day, or, for the two roads, $2,000 a day, for the first ten years that this contract will be in force. For the second decade they are to pay the sum of $550,000 each, plus the interest as it matures, or a little over $1,500 each per day. And thereafter, until the whole debt is paid, they are to pay annually the sum of $750,000.

Mr. McCREARY of Kentucky. I wish to ask the chairman of the Committee on Pacific Railroads, who is now on the floor, whether he believes that these companies can comply with these obligations if the relief contemplated in this bill be granted them?

Mr. POWERS. I am very glad the gentleman has put that question. It is a pertinent one. My friend from Kentucky has struck the very kernel of this whole question. That is the question—Can the companies comply? There is no use in harassing your debtor so that he can not comply. The question is a very pertinent one, and coming from the source it does, I am very grateful to my friend for asking it.

Now, we think the companies can comply with these requirements. As I have already said, their net earnings per year are safely enough counted at $4,000,000, and that under the most adverse conditions that we can reasonably expect the companies to rest under in the future.

Now, Mr. Chairman, I think I may say, without undertaking to prophesy, that the times could clearly be worse in the future than they have been in the past three years, and yet during that time these roads certainly had earnings enough to comply with the requirements of the Government.

In the case of the Central Pacific Railroad we require, inasmuch as they are leased to the Southern Pacific, that the Southern Pacific Company shall be required to enter into an obligation and guarantee to the Government, or rather to assume the payment of

this annual requirement of the Government. The Southern Pacific Railway Company is a large corporation. It was chartered in the gentleman's own State. It has a vast amount of property. Some of our friends will no doubt tell you in the course of this discussion that it is not good for anything. But it is one of the heaviest corporations in the country. Certainly it does not hurt your security to have a second indorser, even though he may not be regarded as strictly good. We say in this case that the indorser is good.

Not only that, but there is a sum of money, amounting to $2,414,000, or thereabouts, now in the Treasury of the United States belonging to the Southern Pacific Company—not the Central Pacific, but belonging to the indorser, the guarantor, of the Central Pacific—which we demand shall be presently applied in reduction of the Central Pacific debts of the Government. We have no right to it as a matter of law. It is a question that has been in contention as to whether it belonged to the Central or the Southern Pacific road for a long time. The courts have decided that it belonged to the Southern Pacific, and we can not legally demand payment of the same; but the committee exacts, as a requirement for this bill and to bring this company to a strict compliance with the terms of the bill, that this payment shall be made, and they have filed an assurance that it may be done.

Now, to answer the question of my friend from Kentucky. The payment of both the Central Pacific Company and the other roads will be about as follows: The payments on behalf of the Central Pacific will be for the first year, interest on bonds of the United States, $1,153,630.28; installment of principal, $365,000; compensation for services on nonaided lines to be applied (with consent of Southern Pacific Company) to the extinguishment of bonds, $2,409,818.20, making a total of $3,928,448.48 which the Government will receive for the first year.

On account of the payment by the Union Pacific the Government will receive, interest on bonds to the United States, $1,074,308.07; installment of principal, $365,000, being a total of $1,439,308.08.

Now, of course, that does not count interest on the first-mortgage bonds, which must be provided for, and we have prepared, as will be seen on page 10 of the report, a table which shows, in the case of the Central Pacific Railroad, that the interest, at 4 per cent, on the first-mortgage bonds on the entire line will amount to $2,307,260.57; interest on the Government indebtedness, $1,153,630.58; and installment of principal, $365,000; making a total of $3,825,890.85. You will see that this is some $100,000 less less than the $4,000,000 limit.

The question may be asked, Why do we leave it at that? The answer is, We can not make it 3 per cent interest, because that would add some $550,000 to the burden of the Union Pacific road and carry it beyond the limit. In the case of the Central Pacific it would carry it above the average by some $570,000 beyond the four-million limit. And so you see we are necessarily tied down to 2 per cent.

Besides that, Mr. Chairman, these companies should have a little margin in their treasury. Who does not know that every railroad is compelled to meet unexpected demands, such as a valuable bridge burning down, a valuable depot property being destroyed by fire; accidents by which personal injuries are received and compensation necessarily demanded therefor. In other words, the

debtor must have a little pocket money to meet the contingencies. Is that not the case in all business matters? What business man does not conduct his business on something of that same principle? Would he say to the debtor, "Give me the last cent you have left in your pocket; I will not leave you anything; your family may be sick, your house may burn up, a thousand and one things may happen to you; but I don't care, I will leave you nothing?" What sensible man would not leave him something to cover contingencies.

Mr. WATSON of Ohio. If the gentleman will allow me, in that connection, I wish to call his attention to a statement in the report. On page 10 of the report you say that the Government would receive from both roads annually, for the first decade, for principal and interest, some $3,000,000. Is that not a mistake? Should it not be $5,000,000 as the receipts from both?

Mr. POWERS. Possibly there may be an error there. I will be glad if the gentleman will make the computation.

Mr. WATSON of Ohio. I think it is a mistake in the print. It ought to be something over $5,000,000.

Mr. POWERS. Now, the Union Pacific will make the following payments:

Interest at 4 per cent on first mortgage	$2,189,240.00
Interest on Government debt	1,074,308.17
Installment of principal	365,000.00
Total	3,628,548.17

Now, if I have not answered the question of my friend from Kentucky [Mr. McCREARY], I shall be glad to do so.

Mr. McCREARY of Kentucky. I am very much obliged to the gentleman. I think he has answered the question very fully. I desire to ask another question in that connection. I think the gentleman touched upon it before. In your bill you provide for the extension of the Government lien on certain property.

Mr. POWERS. Yes.

Mr. McCREARY of Kentucky. If you have stated it, I did not hear it, and I ask you to state it again. What do you value the property at which is covered by this extended lien?

Mr. POWERS. In reference to the valuation of this additional property that the Government will have a mortgage upon, of course it is a question that every gentleman must judge of for himself.

Now, take the case of the terminals at Denver. I have a statement which shows the amount of property. This railroad owns 2,000 acres of land there. I am speaking now of what appeared in 1890, six years ago. They owned 2,000 acres of land and 60 miles of side tracks, together with their warehouses, their depots, and everything of that sort. At Kansas City they owned 233 acres of land and 30 miles of siding. At Omaha they owned 319 acres in the very heart of the city, and 45 miles of side track. At Council Bluffs they owned 1,000 acres of land, together with all their warehouses and everything of that sort.

Well, now, to say how much that property is worth in dollars and cents is a very difficult question to answer. Connected with this railroad and as a part of this railroad, it is invaluable. If you want to get at it by asking me how much it will take to duplicate it, I answer that Mr. Choate, the division superintendent of the Union Pacific, says you can not duplicate the terminals in

Denver for less than $10,000,000. Not only that, they say that the coal lands that are owned by the Union Pacific Railroad are themselves worth the entire Government debt.

Why, the Union Pacific Company has coal beds along its line, so that it is supplied with coal at a nominal price per ton. It costs them hardly anything. These coal lands of the railroad are invaluable adjuncts.

And of course if they are so valuable to the railroad, they must necessarily be so to the Government, if the Government is compelled in the end to take the railroad.

Mr. McCREARY of Kentucky. Just one more question. Your report shows that the Government lien is extended over very valuable properties indeed, including about 20 per cent of the main-line mileage of the Union Pacific Railroad. The point I desire to get at is this: The prior lien, which is now about $61,000,000, will be increased, as I understand it, by your bill, $21,000,000 on the Union Pacific and about $24,000,000 on the Central Pacific. I want to see if the property that the lien would be extended to, not now embraced, would cover about that?

Mr. POWERS. I will say in answer to my friend from Kentucky [Mr. McCREARY] that in 1890 the Senate appointed a committee, of which Mr. FRYE was chairman. They went out over this property and made an extended examination of it. They had experts with them. They looked into the question of the value of this property, and they reported unanimously that in their judgment these railroads were worth $47,000 per mile of main line, and that the terminals were worth the figures which I have been quoting from their report.

They reported a bill which was very similar to the one now under consideration. It provided for an extension of time, at 2 per cent interest. It provided for an annual payment, not so much as we provide, but they estimated at that time the value of that property, and made out that the excess of security over and above what we now have was not less than $92,000,000.

Now, that was six years ago. Whether the property is worth more in dollars and cents to-day I leave to every man here to consider. Of course, these railroad terminals have been expanded; new sidings have been put in; new buildings have been completed; so that I think it is fair to reason, although we have no expert testimony on the subject, that the terminals at all these places are worth more to-day than they were worth six years ago.

Now, then, I have taken more time than I intended to in the discussion of this measure.

Mr. PERKINS. Before the gentleman concludes: I have listened with much interest to the debate. I have heard nothing in regard to the Sioux City and Pacific road. The gentleman is aware that the people of the Northwest are somewhat interested with reference to connection along the line originally proposed by the Sioux City and Pacific. Now, I would like to inquire of the gentleman if there is any consideration involved for the Sioux City and Pacific road?

Mr. POWERS. I am very sorry to say, in reply to my friend from Iowa, that this committee has not felt itself permitted or justified in according any aid to the Sioux City enterprise. I suppose, and I have no doubt my friend knows that fact, that some amendment will be proposed covering that ground, and when it is it will be time enough to discuss that. I prefer not to exhaust

my time and be diverted in that way. This bill does not do any good to the Sioux City road.

Mr. PERKINS. The Sioux City and Pacific road is a branch of the Union Pacific?

Mr. POWERS. Yes.

Mr. PERKINS (continuing). And that property is not considered in this bill?

Mr. POWERS. Nor is the property of the Central Branch considered another one of the parts of the Union Pacific Railroad Company. They have nothing to do with it.

Mr. PERKINS. I do not understand at this time anything in the way of aid is asked for the Sioux City and Pacific Branch, but it is proposed to ask for recognition in the way of connection, etc., if that line is built. An amendment to accomplish that purpose will be offered if an opportunity is afforded.

Mr. POWERS. Very good. I will assure my friend that no objection will be made to any proper amendment that he or any other gentleman may offer.

I have already taken more time than I intended in the discussion of this measure, my purpose mainly being to bring to your mind a little résumé of the history of this transaction, so that, knowing what the past of these roads has been, you would be better able to know what their future ought to be and what you should do in disposing of this question. This committee are in accord with every committee in either House that has considered this subject. They present a plan here similar to that which has received the sanction of other committees, and one that has received the sanction of every person that has ever investigated the matter. It may be imperfect. I wish it were better. I wish we could get a mortgage with ample security paying 6 per cent interest. But we have taken the best we could, and we have squeezed them, to use a homely expression, to the last cent. We have approached the very verge of their possible pecuniary ability in the requirements we have imposed upon them.

Now, the practical question remaining is, Will this Congress undertake to collect this debt from these companies, or will it ruthlessly throw it away? You will doubtless be regaled by some of the bitterest denunciations against the managers of these companies. I have tried to forefend against that by saying they have not taken a dollar from the Government. If they have taken it from somebody else, let somebody else do the fighting. We can not go into the fight between Mr. Huntington and Mayor Sutro, of San Francisco. We are engaged in making an effort to collect a debt from an insolvent debtor, and the question, gentlemen, with all its momentous issues, is submitted to your sound judgment in the hope that you will find, after you have investigated it, that this is the best possible way to get along with this uncomfortable question.

Mr. HENDERSON. Before the gentleman takes his seat, perhaps my attention was diverted, but the gentleman from Kansas [Mr. CURTIS] asked a question about the increased stock, and the increased amount in bonds and mortgage bonds upon the lines. Did the gentleman touch upon that?

Mr. POWERS. I intended to. The gentleman did not complain about the answer I made.

Mr. HENDERSON. I knew the gentleman asked the question. Do I understand that it is a doubling up of its indebtedness?

Mr. POWERS. We take the exact first mortgages on every foot of this system and put them in a hotchpot at their face value and say that the company may issue a new first mortgage of the same amount as the first mortgages now existing on the property, and that we then put our debt on the top of that.

Mr. PATTERSON. I apprehend that the gentleman's inquiry goes to this point, whether the contemplated mortgage increases the first-mortgage lien on the subsidized line.

Mr. HENDERSON. That is exactly the point I wished to get at.

Mr. POWERS. It increases it in one sense, and in another it does not. Take this line [indicating]; in ascertaining the amount of the new mortgage we count the existing first mortgage on this line, plus the existing first mortgage on that line [indicating], and add them together, which gives the amount of the general first mortgage, and the debt to the Government goes on top of that.

Mr. SWANSON. I see in the report that you make this amount $21,999,000, but the report does not state the names of the securities of which that sum is made up. Now, I would like to know the names of the securities that make it up, so that we may ascertain their value in the market.

Mr. POWERS. I have stated once or twice that they are the terminal properties.

Mr. SWANSON. The Omaha Bridge, for instance, is named, and we can look and see what that is worth; but for the remaining part of this amount no names of securities are specified, and I think they ought to be stated, so that we might be enabled to see what is their value to-day.

Mr. POWERS. I can not give the names of the securities without consulting the reports, because they are quite numerous.

Mr. CURTIS of Kansas. The gentleman will find that information in Mr. BELL'S report.

Mr. SWANSON. I have Mr. BELL'S report. He simply gives the estimated value. What I want to know is what the securities are. As I understand, this estimate puts them at par. Now, if the securities are not worth that amount, it might perhaps be better for us to pay $10,000,000 for them rather than extend them over the entire line.

Mr. POWERS. There is no question, Mr. Chairman, as to the value of the property, and before the discussion ends I will submit a table which will satisfy the gentleman.

Mr. PARKER. Did I understand the gentleman correctly when I understood him to state that the new first mortgage would cover all of the system?

Mr. POWERS. The entire system of the Union Pacific Company.

Mr. PARKER. And all of the first-mortgage debt?

Mr. POWERS. The first mortgage on the entire system will be made up of existing first mortgages on the different parts of it. There are several corporations, each of which has a first mortgage.

Mr. PARKER. In the receiver's report I find: First-mortgage bonds, $40,000,000, with $2,500,000 interest also, other bonded debt, $40,000,000, and $2,500,000 interest; making $45,000,000 on that system. Now——

Mr. POWERS. If the gentleman will pardon me, I have not seen that report, and I do not like to talk about it without having

examined it, but I will try to answer the gentleman's inquiry before the debate ends.

Mr. PARKER. Another question. Why is the description of the property of the Union Pacific Railroad so different from the description of the Central Pacific Railroad's property? I notice that the description of the Central Pacific property includes every property of that railroad company, all bonds, stocks, etc., owned by it, and that those words are left out of the description of the property of the Union Pacific.

Mr. POWERS. The gentleman, I think, is laboring under a mistake. The description covers the same thing in both cases. A more careful examination will show the gentleman that the descriptions are alike and we require an inventory of the property to be filed in the Treasury.

Mr. PARKER. I think the gentleman himself is mistaken on that point.

Mr. POWERS. Mr. Chairman, I do not like to be discourteous, but I have taken so much time that I must decline to answer further questions at this time, and now I leave the matter in other hands, reserving the balance of my time.

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